

CCXAP assigns first-time long-term credit rating of BBB_g to Chongqing Yulong Asset Management Co., Ltd., with stable outlook.

Hong Kong, 29 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Chongqing Yulong Asset Management Co., Ltd. (“YLAM” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of YLAM reflects Jiulongpo District Government’s relatively strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Jiulongpo District Government’s capacity to provide support reflects Jiulongpo District’s vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing City by gross regional product (“GRP”).

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key position as the main state-owned assets operation and management platform in Jiulongpo District; (2) large public project reserves in land consolidation and infrastructure construction; and (3) solid track record of receiving support from the local government and its parent company. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) large capital expenditure pressure from sizable investment in self-operated projects; and (3) rapid debt growth and moderate assets liquidity.

Corporate Profile

Established in 2003, YLAM, formerly known as Chongqing Jiulongpo District Tourism Asset Development and Construction Co., Ltd. The Company became one of the important local infrastructure investment and financing Companies (“LIIFCs”) in Jiulongpo District after equity transfer and capital increase in 2021. The Company is mainly responsible for land consolidation, shantytown renovation, urban infrastructure construction and state-owned assets operation in Jiulongpo District. It also engages in more commercially driven activities, including security services, property management and leasing, smart parking and self-operated project construction. As of 30 September 2023, the State-owned Assets Supervision and Administration Commission of Jiulongpo District, Chongqing City (“Jiulongpo SASAC”) was the ultimate controller of the Company holding 100% stakes of the Company through Chongqing Yulong Asset Management (Group) Co., Ltd. (“CYAM”).

Rating Rationale

Credit Strengths

Key position as the main state-owned assets operation and management platform in Jiulongpo District. YLAM has become one of the important land consolidation and state-owned assets operation entities in Jiulongpo District as it is responsible for land consolidation, urban renewal and infrastructure construction within Jiulongpo District outside Jiulong Peninsula area. Considering the Company’s high strategic significance to the development of

Jiulongpo District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Large public project reserves in land consolidation and infrastructure construction. As of 30 September 2023, the Company had 3,444 mu of lands under consolidation with a total investment amount of RMB7.5 billion and an outstanding amount of RMB3.3 billion. Moreover, the planned land consolidation projects totaling 565.6 mu of land required a total investment amount of RMB1.2 billion. The large scale of land consolidation ensures the sustainability of the business. However, the income from land development is subject to the land market and government policies.

Solid track record of receiving government payments. YLAM has received recurring financial support, including financial subsidies, asset and capital injection, from CYAM and the Jiulongpo District Government. Given YLAM's important strategic role in the region, we expect the Company will continue to receive support from the government and its parent in the future.

Credit Challenges

Medium exposure to commercial activities. YLAM also engages in various commercial activities, such as security service, property sales, self-operating projects, property leasing and management, and smart parking. We consider YLAM's commercial business exposure to be medium, as its market-driven businesses accounted for around 15-20% of its total assets as of 30 September 2023.

Large capital expenditure pressure from sizable investment in self-operated projects. As of 30 September 2023, YLAM had 7 self-operated projects under construction or planning, with a total investment amount of RMB6.4 billion and an outstanding amount of RMB5.4 billion. Given the large initial investment amount on these projects, coupled with relatively long construction and payback periods, we believe the Company will face large capital expenditure pressure and debt repayment pressure.

Rapid debt growth and moderate assets liquidity. YLAM's total debt had increased to RMB8.5 billion as of 30 September 2023 from RMB0.8 billion as the end of 2020 while the total capitalization ratio has risen to 53.7% from 24.7% in the same period. YLAM's total asset mainly consists of inventories and receivables, which accounted for 55.9% of its total assets as of 30 September 2023, all of which are considered low liquidity.

Rating Outlook

The stable outlook on YLAM's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its important position in the development of Jiulongpo District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's



willingness to provide support, such as decreased exposure to commercial activities and diversified financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Olivia Feng

Senior Credit Analyst

+852-2860 7133

olivia_feng@ccxap.com

Elle Hu

Executive Director of Credit Ratings



+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656